

**Winneshiek County Memorial Hospital  
Decorah, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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**Winneshiek County Memorial Hospital  
OFFICIALS  
June 30, 2004**

**Before January 2004**

**BOARD OF TRUSTEES**

David Kratz, President  
Karl Schroeder, Vice President  
Don Nelson, Secretary-Treasurer  
Arlene Houlihan  
Ben Wyatt

**Expiration of term**

December 31, 2004  
December 31, 2008  
December 31, 2006  
December 31, 2006  
December 31, 2008

**CHIEF EXECUTIVE OFFICER**

Allan Atkinson

**CHIEF FINANCIAL OFFICER**

Timothy Wren

**DIRECTOR OF NURSING**

Sheryl Juve

**After January 2004**

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Allan Atkinson

**CHIEF FINANCIAL OFFICER**

Timothy Wren

**DIRECTOR OF NURSING**

Sheryl Juve

**INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Winneshiek County Memorial Hospital  
Decorah, Iowa

We have audited the accompanying balance sheets of Winneshiek County Memorial Hospital as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winneshiek County Memorial Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004 on our consideration of Winneshiek County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 26, 2004

**Winneshiek County Memorial Hospital  
(WCMH)  
Management's Discussion and Analysis**

As management of Winneshiek County Memorial Hospital, we offer this narrative overview and analysis of the WCMH's financial performance during the fiscal years ended June 30, 2004, 2003 and 2002. Please read it in conjunction with WCMH's financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes management's discussion and analysis report, the independent auditor's report and basic financial statements of the Hospital. The financial statements also include notes that explain in more detail some of the information contained therein.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Hospital use accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities and provides answers to such questions as where the cash came from, what the cash was used for, and what the change in cash balance was during the reporting period.

**FINANCIAL HIGHLIGHTS**

- Total assets increased by \$2,255,666.
- Total assets whose use is limited increased by \$1,270,853.
- Total property and equipment increased by \$694,972.
- Fund equity increased by \$2,458,113.
- Net patient service revenue increased by \$1,943,753, primarily due to new specialty services, Medicare sole community Hospital designation, and charge master review implementation.
- Expenses increased by \$2,446,898, primarily due to new services and competitive increases in wages for essential personnel.
- Total margin for FY 2004 was 7.9%, compared to 11.8% for FY 2003.

## **FINANCIAL ANALYSIS OF WCMH**

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the Hospital and the changes in them. The Hospital's net assets – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

### **Net Assets**

A summary of the Hospital's balance sheets at June 30, 2004, 2003 and 2002, are presented in Table 1 below.

**Table 1**  
**Condensed Balance Sheets**

	<b><u>June 30, 2004</u></b>	<b><u>June 30, 2003</u></b>	<b><u>Dollar Change</u></b>	<b><u>Total % Change</u></b>	<b><u>June 30, 2002</u></b>
Current and other assets	\$12,853,115	\$11,292,421	\$1,560,694	14%	\$ 9,972,010
Property and Equipment (net)	7,988,203	7,293,231	694,972	10%	6,974,592
Total Assets	<u>\$20,841,318</u>	<u>\$18,585,652</u>	<u>\$2,255,666</u>	<u>12%</u>	<u>\$16,946,602</u>
Long-term debt outstanding	\$ 1,176,217	\$ 1,548,192	\$ (371,975)	(24)%	\$ 1,904,538
Other Liabilities	2,508,202	2,338,674	169,528	7	2,560,147
Total Liabilities	<u>\$ 3,684,419</u>	<u>\$ 3,886,866</u>	<u>\$ (202,447)</u>	<u>(5)%</u>	<u>\$ 4,464,685</u>
Invested in Capital Assets (net)	\$ 6,438,143	\$ 5,388,129	\$1,050,015	19%	\$ 4,728,680
Restricted Expansion Fund	804,805	786,661	18,144	2	772,102
Foundation Fund	418,213	36,848	381,366	1,035	98,725
Unrestricted	9,495,738	8,487,148	1,008,588	12	6,882,410
Total Net Assets	<u>\$17,156,899</u>	<u>\$14,698,786</u>	<u>\$2,458,113</u>	<u>17%</u>	<u>\$12,481,917</u>

As can be seen by Table 1, net assets increased by \$2.4 million to \$17.1 million in fiscal year 2004, up from \$14.7 million in fiscal year 2003. The change in net assets results primarily from operational gains.

During fiscal year 2004 the Hospital continued implementation of a \$1,200,000 software (Meditech) and related hardware project. The expenditures during the fiscal year 2004 for the Meditech project were \$632,949. A spring 2005 completion date is anticipated. Architects were paid \$275,484 for a major construction project slated to begin in the spring of 2005. In addition, there was a remodeling of the Med/Surg unit costing over \$323,000. Other capital items were purchased for the Hospital during the year. These projects were funded by internal general funds.

## **REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

The following table presents a summary of the Hospital's revenues and expenses for each of the fiscal years ended June 30, 2004, 2003 and 2002.

**Table 2**  
**Condensed Statements of Revenue, Expenses, and Changes in Fund Equity**  
**(In Thousands)**

	<b><u>Year ended June 30,</u></b>		
	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Total Revenue	\$19,692	\$17,780	\$16,083
Expenses	<u>18,678</u>	<u>16,231</u>	<u>15,168</u>
Operating income	1,014	1,549	915
Non-operating gains	<u>545</u>	<u>553</u>	<u>606</u>
Excess of revenues over expenses before contributions	1,559	2,102	1,521
Contributions	<u>899</u>	<u>114</u>	<u>151</u>
Changes in fund equity	2,458	2,216	1,672
Total fund equity, beginning	<u>14,698</u>	<u>12,482</u>	<u>10,810</u>
Total fund equity, ending	<u>\$17,156</u>	<u>\$14,698</u>	<u>\$12,482</u>

## **OPERATING AND FINANCIAL PERFORMANCE**

The following summarizes the Hospital's statement of revenues, expenses, and changes in fund equity between June 30, 2004 and 2003.

**Volume:** Inpatient admissions (excluding normal newborns) for fiscal year 2004 were 1,402 compared to 1,231 in fiscal year 2003. The average length of stay declined slightly, however patient days increased by 321 from 4424 in 2003. There were a few departments with a slight decrease in volumes. Departments with substantial volume increases occurred in: Operating Room, Emergency Room, Same Day Services, Physical Therapy, and Hospice. Adjusted Patient days, which factor in outpatient volume based on ratio of outpatient revenues to total revenues, increased slightly during fiscal year 2004.

**Net Patient Service Revenue:** Due to a rate increase of 3% to 15% effective July 1, 2003, and the increase in patient volumes discussed above, net patient service revenues climbed by \$1,943,753, or 11.3% in comparison to fiscal year 2003. During the fiscal year, the Hospital's reimbursement for Medicare inpatients under prospective pricing system (PPS) saw a decline of around 2% due to a reduction in the wage index. The wage index impacts the labor component (71.1%) of the DRG (diagnostic related groups) base rate.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2004, 2003 and 2002.

**Table 3**  
**Payor Mix by Percentage**

	<b>Year Ended June 30</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Medicare	52.75%	51.45%	53.18%
Medicaid	4.50%	4.56%	4.08%
Self Pay	3.30%	3.53%	3.41%
Wellmark	14.63%	14.44%	14.36%
Commercial	21.619%	23.69%	22.26%
Others	3.21%	2.33%	2.71%

Other Revenue: decreased \$32,103, primarily due to a reduction in federal grants received.

Daily Patient Service Expenses: increased \$187,862, primarily due to an increase in patient services provided in Med/Surg and OB.

Nursing Service Expenses: increased \$822,976, primarily due to competitive increases for essential personnel and an increase in Medical and surgical supplies due to additional procedures performed in the Operating Room and needs of individual physicians.

Other Professional Service Expenses: increased \$363,391, primarily due to wage increases and expanding Physical Therapy and Laboratory services.

General Service Expenses: increased \$58,060, primarily due to wage increases and increase in food and linen costs.

Fiscal and Administrative Expenses: increased \$722,258, primarily due to wage increases and services growing to meet the impact of revenue producing departments. In addition there was an increase cost of employee benefits in the amount of \$321,593. There were additional costs related to the installation of the Meditech software system including overtime and additional purchased services to meet particular timelines of the project.

Nonoperating Gains and Contributions: increased \$776,492, primarily due to capital campaign contributions from the hospital foundation.

## **CAPITAL ASSETS**

At the end of fiscal year 2004, the Hospital has invested \$7.988 million in capital assets as shown in Table 1. The \$694,972 increase in net capital assets is primarily a result of increases in Major moveable equipment, buildings and construction in progress. Buildings increased by \$129,799 due to a new special care unit and an air handler upgrade. Construction in progress increased by \$447,143 due to continued work on the ongoing building projects consisting of upgrading Med/Surg hallway and patient rooms. Major movable equipment increased by \$1,322,313 due primarily to the implementation of the Meditech software system and related hardware.

The following table summarizes the Hospital's capital assets as of June 30, 2004 and 2003.

**Table 4**  
**Capital Assets**

	<u>June 30,</u>			<u>June 30,</u>
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>2002</u>
Land	\$ 551,673	\$ 669,673	\$ (118,000)	\$ 669,673
Land Improvements	342,283	334,971	7,312	325,096
Buildings and leasehold improvements	7,958,171	7,828,372	129,799	6,998,406
Fixed equipment	1,272,973	1,256,803	16,170	1,198,198
Major moveable equipment	7,251,200	5,928,887	1,322,313	5,468,449
Construction in progress	<u>970,357</u>	<u>523,214</u>	<u>447,143</u>	<u>895,378</u>
Subtotal	18,346,657	16,541,920	1,804,737	15,555,200
Less accumulated depreciation	<u>(10,358,454)</u>	<u>(9,248,689)</u>	<u>\$(1,109,765)</u>	<u>(8,580,608)</u>
Property, plant and equipment, net	<u>\$ 7,988,203</u>	<u>\$ 7,293,231</u>	<u>\$ 694,972</u>	<u>\$ 6,974,592</u>

## **DEBT ADMINISTRATION**

### **Long Term Debt**

At year-end, the Hospital had \$1,550,060 in short and long – term debt related to a County public hospital revenue note. This has decreased from \$1,905,102 in fiscal year 2003, which was the amount of principal payments on outstanding debt for fiscal year 2004. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements. No new long-term debt was incurred in the current year. Note that total debt represents 47% of the Hospital's total liabilities as of year-end.

## **CAPITAL LEASES**

There were no capital lease obligations for the years ended June 30, 2004 and 2003.

## **PERFORMANCE COMPARED TO BUDGET**

Net patient revenues were \$392,110 or 2.0% under budget for the fiscal year ended June 30, 2004. This was primarily due to a very substantial growth in Special Care Unit, ER, Same Day Services and an increase in third party contractual adjustments. Deductions from revenue were \$958,203 or more than 9.9% over budget. This was primarily due to increase discounts such as Self Pay discounts and new Commercial Insurance discounts.

Other operating revenues were \$15,421 or 2.5% under budget. This was primarily due to a decrease in drugs sold to patients residing in nearby nursing homes. Note - Budget does not include tax dollars received. Taxes for budgeting purposes are included in non-operating income.

Operating expenses were \$85,121 or 0.5% over budget. This was primarily due to a competitive increase in wages for essential personnel, and supporting new services, guaranteed hours for nursing personnel, increase in insurance premiums, and an increase in bad debt expense.

Income from investments was \$13,121 or 11.4% under budget. This was primarily due to the decrease in interest rates. However, it should be noted for budgeting purposes the foundation investment income is not included. The hospital received \$500,000 in donations from the foundation for the hospital's upcoming capital project which will begin in spring of 2005.

The following table compares fiscal year 2004 actual to budget information.

**Table 5**  
**Budget vs. Actual**

	<b>FY 2004 Budget</b>	<b>FY 2004 Actual</b>	<b>Dollar Variance</b>	<b>Percent Variance</b>
Gross patient service revenue	\$29,140,338	\$29,706,431	\$566,093	1.9%
Contractual adjustments	9,650,908	10,609,111	958,203	9.9%
Net patient service revenue	19,489,430	19,097,320	(392,110)	(2.0)%
Other operating revenue, excluding county taxes	610,287	594,866	(15,421)	(2.5)%
Total operating revenue	20,099,717	19,692,186	(407,531)	(2.0)%
Operating expenses	18,593,225	18,678,346	85,121	0.5%
Operating income	1,506,492	1,013,840	(492,652)	32.7%
Other nonoperating gains (losses)	0	9,755	9,755	100.0%
Income from investments (Budget – Foundation	115,000	101,879	(13,121)	(11.4)%
Other non-operating revenue + (county taxes)	556,600	433,127	(123,473)	(22.2)%
Capital Campaign Donations – Foundation	0	899,512	899,512	100.0%
Excess of revenues over expenses	\$2,178,092	\$ 2,458,113	\$280,021	12.9%

## **ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET**

The Hospital's board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance in setting the 2005 budget is the economy, which takes into account market forces and environmental factors such as:

- Decrease in Medicare and Medicaid reimbursement rates
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs

Other factors consisted of supporting new specialty services, increased competition, an increase in charity care and bad debt expense caused by rising health care premiums and higher deductibles.

## **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact Tim Wren, CFO at 563-382-2911.

**Winneshiek County Memorial Hospital  
BALANCE SHEETS**

ASSETS	June 30	
	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,365,395	\$ 2,715,892
Patient receivables, less allowances for contractual adjustments and uncollectibles		
2004 \$1,951,050; 2003 \$1,907,367	3,031,901	3,066,867
Estimated third party payor settlements	669,700	—
Other receivables	317	37,671
Inventories	626,558	628,359
Prepaid expenses	89,990	43,842
Total current assets	<u>6,783,861</u>	<u>6,492,631</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by Board for plant replacement and expansion		
Cash	2,299,515	1,927,050
Certificates of deposit	<u>2,107,087</u>	<u>1,608,208</u>
	<u>4,406,602</u>	<u>3,535,258</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	297,295	285,200
Certificates of deposit	504,003	500,000
Interest receivable	3,507	1,461
	<u>804,805</u>	<u>786,661</u>
Restricted by donors/foundation		
Cash and cash equivalents	62,234	20,459
Certificate of deposit	8,062	7,936
Investments	40,477	8,453
Pledges receivable	307,440	—
	<u>418,213</u>	<u>36,848</u>
Total assets whose use is limited	<u>5,629,620</u>	<u>4,358,767</u>
<b>PROPERTY AND EQUIPMENT</b>	18,346,657	16,541,920
Less accumulated depreciation	<u>10,358,454</u>	<u>9,248,689</u>
Total property and equipment	<u>7,988,203</u>	<u>7,293,231</u>
<b>OTHER ASSETS</b>		
Succeeding year property tax receivable	427,053	424,249
Unamortized financing costs	12,581	16,774
Total other assets	<u>439,634</u>	<u>441,023</u>
Totals	<u>\$20,841,318</u>	<u>\$18,585,652</u>

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCES	June 30	
	2004	2003
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 373,843	\$ 356,910
Accounts payable	414,019	422,238
Estimated third-party payor settlements	—	50,000
Accrued employee compensation	1,200,394	1,048,517
Payroll taxes and amounts withheld from employees	92,893	36,760
Total current liabilities	<u>2,081,149</u>	<u>1,914,425</u>
<b>LONG-TERM DEBT</b>		
County public hospital revenue note	1,550,060	1,905,102
Less current maturities	<u>373,843</u>	<u>356,910</u>
Total long-term debt	<u>1,176,217</u>	<u>1,548,192</u>
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	<u>427,053</u>	<u>424,249</u>
<b>CONTINGENCIES</b>		
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	6,438,143	5,388,129
Restricted		
For specific purpose by donors	804,805	786,661
By donors/foundation	418,213	36,848
Unrestricted	<u>9,495,738</u>	<u>8,487,148</u>
Total fund equity	<u>17,156,899</u>	<u>14,698,786</u>
Totals	<u>\$20,841,318</u>	<u>\$18,585,652</u>

**Winneshiek County Memorial Hospital**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provisions for bad debts 2004 \$651,000; 2003 \$628,000	\$19,097,320	\$17,153,567
<b>OTHER REVENUE</b>	<u>594,866</u>	<u>626,969</u>
Total revenue	<u>19,692,186</u>	<u>17,780,536</u>
<b>EXPENSES</b>		
Nursing service	5,917,119	4,906,281
Other professional service	5,780,043	5,416,652
General service	1,392,905	1,334,845
Fiscal and administrative service and unassigned expenses	4,478,514	3,756,256
Provision for depreciation and amortization	<u>1,109,765</u>	<u>817,414</u>
Total expenses	<u>18,678,346</u>	<u>16,231,448</u>
Operating income	<u>1,013,840</u>	<u>1,549,088</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
County taxes	433,127	432,809
Contribution expense	—	(22,572)
Interest income	101,879	146,051
Interest expense	(80,424)	(94,654)
Unrestricted contributions	21,072	25,905
Rental property, net	66,916	84,681
Gain (loss) on sale of property and equipment	<u>2,191</u>	<u>(18,604)</u>
Total nonoperating gains (losses)	<u>544,761</u>	<u>553,616</u>
Excess of revenues and gains over expenses before contributions	1,558,601	2,102,704
<b>CONTRIBUTIONS</b>	<u>899,512</u>	<u>114,165</u>
Change in fund equity	<u>2,458,113</u>	<u>2,216,869</u>
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>14,698,786</u>	<u>12,481,917</u>
Ending	<u>\$17,156,899</u>	<u>\$14,698,786</u>

See Notes to Financial Statements.

**Winneshiek County Memorial Hospital**  
**STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$18,412,586	\$17,629,543
Cash paid to suppliers for goods and services	(9,110,876)	(8,686,678)
Cash paid to employees for services	(8,265,363)	(7,384,992)
Other operating revenues received	632,220	615,465
Net cash provided by operating activities	<u>1,668,567</u>	<u>2,173,338</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County taxes received	433,127	432,809
Unrestricted contributions received	21,072	25,905
Foundation contributions, net of expense	592,072	84,366
Net cash provided by noncapital financing activities	<u>1,046,271</u>	<u>543,080</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(1,841,635)	(1,392,474)
Proceeds from sale of equipment	2,191	2,018
Contributions received for plant replacement and expansion	—	7,227
Principal paid on long-term debt	(355,042)	(340,810)
Interest paid on long-term debt	(76,231)	(90,463)
Net cash (used in) capital and related financing activities	<u>(2,270,717)</u>	<u>(1,814,502)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (purchase) redemptions of certificates of deposit and investments	(535,032)	(98,636)
Investment income received	99,833	143,561
Net cash received on rental property	66,916	84,681
Net cash provided by (used in) investing activities	<u>(368,283)</u>	<u>129,606</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	75,838	1,031,522
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>4,948,601</u>	<u>3,917,079</u>
Ending	<u>\$ 5,024,439</u>	<u>\$ 4,948,601</u>

See Notes to Financial Statements.

**Winneshiek County Memorial Hospital**  
**STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$1,013,840	\$1,549,088
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,113,958	821,605
Change in assets and liabilities		
(Increase) decrease in patient receivables	34,966	(262,024)
(Increase) decrease in other receivables, net of investing activities	37,354	(11,504)
Decrease in inventories	1,801	8,996
(Increase) decrease in prepaid expenses	(46,148)	5,497
Increase (decrease) in accounts payable, net of amounts for property and equipment	24,486	(152,322)
Increase in accrued employee compensated absences	151,877	104,493
Increase in payroll taxes and amounts withheld from employees	56,133	3,700
(Increase) decrease in net estimated third-party payor settlements	<u>(719,700)</u>	<u>110,000</u>
Net cash provided by operating activities	<u>\$1,668,567</u>	<u>\$2,177,529</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets	\$2,365,395	\$2,715,892
Assets whose use is limited		
Board-designated for plant replacement and expansion	2,299,515	1,927,050
Restricted by donors for specific purpose	297,295	285,200
Restricted by donors/foundation	<u>62,234</u>	<u>20,459</u>
Total per statement of cash flows	<u>\$5,024,439</u>	<u>\$4,948,601</u>

## **Winneshiek County Memorial Hospital NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Hospital is a county public hospital organized under Chapter 347A, Code of Iowa, not subject to taxes on income or property and receives tax support from Winneshiek County, Iowa. The Hospital is organized exclusively for charitable and educational purposes within the meaning of Chapter 501(c)(3) of the Internal Revenue Code. The Hospital grants credit to patients, substantially all of whom are county residents and other areas of northeastern Iowa or southeastern Minnesota.

#### **Reporting Entity**

For financial reporting purposes, Winneshiek County Memorial Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. Based on this criteria the Hospital has included the Winneshiek County Memorial Hospital Foundation as a blended component unit. The Foundation was formed by the Hospital to promote fundraising efforts on behalf of the Hospital. The Foundation is a nonprofit corporation formed pursuant to Chapter 504A of the Code of Iowa and is a tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. The Hospital is the sole voting member of the corporation. The financial data of the Foundation is reported as restricted fund equity in the Hospital's financial statements.

#### **Measurement Focus and Basis of Accounting**

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

#### **Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

#### **Cash and Cash Equivalents**

For the purposes of reporting the statement of cash flows the Hospital considers all cash, savings, and money market accounts to be cash equivalents.

**Winnebago County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments and Investment Income**

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Equity securities Mutual funds and common stocks	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income from investments is reported as nonoperating gains. Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations is recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

**Property Tax Receivable**

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**Deferred Revenue**

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Winneshiek County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Statements of Revenues, Expenses, and Changes in Fund Equity**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

**Costs of Borrowing**

Unamortized financing costs are being amortized over the period the obligation is outstanding using the straight-line method.

**Fund Equity**

Fund equity is presented in the following components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the long-term debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted fund equity**

Restricted fund equity consists of funds on which constraints have been externally imposed by grantors or contributors (including the Foundation).

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Pledges Receivable**

Unconditional pledge receivable are recorded as receivables and contributions in the year received.

**Reclassifications**

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation. These reclassifications had no impact on the total fund equity or the excess of revenues over expenses before contributions.

**Winneshiek County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2004 were covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Hospital had deposits in one financial institution that was not listed on its depository resolution. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Hospital also maintains mutual fund and common stock investments which were received by donation.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. At June 30, 2004, the Hospital's investments in marketable equity securities are in a category characterized as investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name.

The Hospital's investments at June 30, 2004 are as follows:

**Fair value**

Marketable equity securities, common stocks and mutual funds

\$ 40,477

**NOTE 3 NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare**

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003) for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlements are determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

**Other**

The Hospital has also entered into payment agreements with Blue Cross, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**Winneshiek County Memorial Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 PROPERTY AND EQUIPMENT**

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 669,673	\$ —	\$ (118,000)	\$ —	\$ 551,673
Land improvements	334,971	7,312	—	—	342,283
Buildings and leasehold improvements	7,828,372	59,404	—	70,395	7,958,171
Fixed equipment	1,256,803	16,170	—	—	1,272,973
Major movable equipment	5,928,887	340,934	(8,328)	989,707	7,251,200
Construction and equipment installations in progress	<u>523,214</u>	<u>1,507,245</u>	<u>—</u>	<u>(1,060,102)</u>	<u>970,357</u>
Totals	16,541,920	1,931,065	(126,328)	—	18,346,657
Less accumulated depreciation and amortization	<u>(9,248,689)</u>	<u>(1,109,765)</u>	<u>—</u>	<u>—</u>	<u>(10,358,454)</u>
Net property and equipment	<u>\$ 7,293,231</u>	<u>\$ 821,300</u>	<u>\$ (126,328)</u>	<u>\$ —</u>	<u>\$ 7,988,203</u>

Construction and equipment installations in progress at June 30, 2004 consists of costs related to the installation of computer hardware and software equipment, remodeling of the medical/surgical unit and architect fees related to a proposed expansion project. The total cost of the computer equipment project is anticipated to be approximately \$1,200,000. The total costs of the remodeling project are approximately \$406,000. No signed commitments have been entered into on the proposed expansion project as of June 30, 2004.

A summary of changes in property and equipment for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 669,673	\$ —	\$ —	\$ —	\$ 669,673
Land improvements	325,096	9,875	—	—	334,971
Buildings and leasehold improvements	6,998,406	49,446	—	780,520	7,828,372
Fixed equipment	1,198,198	38,864	(2,134)	21,875	1,256,803
Major movable equipment	5,468,449	538,075	(170,620)	92,983	5,928,887
Construction in progress	<u>895,378</u>	<u>523,214</u>	<u>—</u>	<u>(895,378)</u>	<u>523,214</u>
Totals	15,555,200	1,159,474	(172,754)	—	16,541,920
Less accumulated depreciation and amortization	<u>(8,580,608)</u>	<u>(817,414)</u>	<u>149,333</u>	<u>—</u>	<u>(9,248,689)</u>
Net property and equipment	<u>\$ 6,974,592</u>	<u>\$ 342,060</u>	<u>\$ (23,421)</u>	<u>\$ —</u>	<u>\$ 7,293,231</u>

**Winneshiek County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 LONG-TERM DEBT**

In December, 2001, the Board of Trustees of Winneshiek County Memorial Hospital authorized the issuance of a \$3,500,000 Hospital Revenue Note, Series 2001 to be funded by the Community First National Bank of Decorah, Iowa (the lender). The purpose of the note is to finance the cost of improvements to the Hospital including the acquisition of real estate, the renovation and furnishing of the special care unit and the acquisition and construction of improvements and equipment included in the Hospital's capital budget for the fiscal years ending June 30, 2003 and June 30, 2004 and to refund a 1996 Hospital revenue note.

Advances of principal under the note in an amount not to exceed \$3,500,000 were made by the lender from time to time at the request of the Hospital during the period beginning on the date of issuance of the note to and including May 31, 2003. Advances through June 30, 2004 totaled \$2,245,912.

Beginning on February 1, 2003, the Hospital began paying monthly installments of principal and interest totaling \$35,939, including interest at 4.30%.

The annual estimated requirements relating to the note agreement are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 373,843	\$ 59,298	\$ 433,141
2006	388,289	42,984	431,273
2007	405,318	25,955	431,273
2008	<u>382,610</u>	<u>8,195</u>	<u>390,805</u>
Total	1,550,060	136,432	1,686,492
Less current maturities	<u>373,843</u>	<u>59,298</u>	<u>433,141</u>
Total long-term portion	<u>\$1,176,217</u>	<u>\$ 77,134</u>	<u>\$1,253,351</u>

Long-term debt activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<b>Revenue notes</b>					
2004	<u>\$1,905,102</u>	<u>\$ —</u>	<u>\$ (355,042)</u>	<u>\$1,550,060</u>	<u>\$ 373,843</u>
2003	<u>\$2,245,912</u>	<u>\$ —</u>	<u>\$ (340,810)</u>	<u>\$1,905,102</u>	<u>\$ 356,910</u>

**NOTE 6 MEDICAL OFFICE SPACE LEASE**

The Hospital, as lessor, leases an area of the Hospital building to be used as medical office space under an operating lease agreement with automatic five-year renewal options that expire February, 2015. Lease payments are to be received in monthly installments at commercial rental rates determined annually. Current monthly lease payments are \$8,816.

**Winneshiek County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 MEDICAL OFFICE SPACE LEASE (continued)**

Information with respect to the estimated minimum rents to be received under the lease is as follows:

**Year ending June 30**

2005	\$ 105,792
2006	105,792
2007	105,792
2008	105,792
2009	105,792
Thereafter	<u>599,488</u>
Total	<u>\$1,128,448</u>

**NOTE 7 DEFINED BENEFIT PENSION PLAN**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$469,957, \$415,507 and \$373,330, respectively, equal to the required contributions for each year.

**NOTE 8 CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Charges foregone, based on established rates	\$ <u>142,107</u>	\$ <u>116,916</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</u>	<u>.4%</u>

**NOTE 9 MALPRACTICE CLAIMS**

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. In addition the Hospital has excess liability coverage of \$5,000,000 in the aggregate.

Incidents occurring through June 30, 2004 may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**Winneshiek County Memorial Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 PATIENT RECEIVABLES**

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
Receivable from patients	\$ 517,767	\$1,323,431
Receivable from insurance carriers	2,532,121	1,526,520
Receivable from Medicare	2,046,198	2,030,819
Receivable from Medicaid	<u>236,865</u>	<u>243,464</u>
Total patient receivables	5,332,951	5,124,234
Less allowance for contractual adjustments and uncollectibles	<u>2,301,050</u>	<u>2,057,367</u>
Net patient receivables	<u>\$3,031,901</u>	<u>\$3,066,867</u>

**NOTE 11 HOSPITAL RISK MANAGEMENT**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for any of the past three fiscal years.

**NOTE 12 EMPLOYEE BENEFITS**

The Hospital has developed a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$30,000 per person, with an aggregate stop-loss provision for the plan as a whole of \$1,000,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2004 and 2003 was \$707,649 and \$475,105, respectively.

**NOTE 13 PLEDGES RECEIVABLE**

At June 30, 2004, the Foundation's pledges receivable consisted of pledges to be used for the Hospital's proposed expansion project.

A summary of the activity in pledges receivable for the year ended June 30, 2004 is as follows:

Pledges made during the year	\$ 899,512
Pledge payments received	<u>(592,072)</u>
Total	<u>\$ 307,440</u>

Pledges receivable at June 30, 2004 are expected to be received as follows:

**Year ending June 30**

2005	\$ 73,291
2006	64,216
2007	70,834
2008	51,750
2009	<u>47,349</u>
Total	<u>\$ 307,440</u>

**INDEPENDENT AUDITOR'S REPORT ON THE REQUIRED  
AND OTHER SUPPLEMENTARY INFORMATION**

Board of Trustees  
Winneshiek County Memorial Hospital  
Decorah, Iowa

Our reports on our audits of the basic financial statements of Winneshiek County Memorial Hospital as of and for the years ended June 30, 2004 and 2003 appear on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We also audited the supplementary information for the years ended June 30, 2002 and 2001, and expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 26, 2004

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Winneshiek County Memorial Hospital**  
**BUDGET COMPARISON SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS, BUDGET AND ACTUAL**  
**Year ended June 30, 2004**

The following is a comparison of reported amounts to the budget:

	<u>Reported amounts (GAAP basis)</u>			<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Budget</u>
	<u>*General funds</u>	<u>Restricted funds</u>	<u>Total (memorandum only)</u>			
Amount to be raised by taxation	\$ 433,127	\$ —	\$ 433,127	\$ —	\$ 433,127	\$ 424,249
Other revenues/receipts	20,303,823	899,509	21,203,332	—	21,203,332	18,673,700
	20,736,950	899,509	21,636,459	—	21,636,459	19,097,949
Expenses/expenditures	18,678,346	500,000	19,178,346	512,294	19,690,640	19,446,181
Net	2,058,604	399,509	2,458,113	(512,294)	1,945,819	(348,232)
Balance, beginning	13,875,277	823,509	14,698,786	(5,388,129)	9,310,657	6,932,762
Balance, ending	<u>\$15,933,881</u>	<u>\$1,223,018</u>	<u>\$17,156,899</u>	<u>\$(5,900,423)</u>	<u>\$11,256,476</u>	<u>\$ 6,584,530</u>

\*Includes unrestricted fund equity and fund equity invested in capital assets, net of related debt.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for all funds following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major differences between budget and GAAP bases are that depreciation and bad debts are not recorded as expenditures on the budget basis and capital expenditures net of borrowings and long-term debt requirements are recorded on the budget basis.

## **OTHER SUPPLEMENTARY INFORMATION**

**Winneshiek County Memorial Hospital  
ANALYSIS OF PATIENT RECEIVABLES**

<b>Age of accounts (by date of discharge)</b>	<b>Amounts</b>		<b>Percent to total</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
0 - 30 days (includes patients in Hospital at end of year)	\$2,026,304	\$1,909,306	38.00%	37.26%
31 - 60 days	792,095	944,557	14.85	18.43
61 - 90 days	377,951	515,087	7.09	10.05
91 - 180 days	826,730	792,393	15.50	15.47
6 - 12 months	904,607	382,670	16.96	7.47
Over 1 year	405,264	580,221	7.60	11.32
	5,332,951	5,124,234	100.00%	100.00%
Unapplied Medicare periodic interim payments	<u>(350,000)</u>	<u>(150,000)</u>		
Totals	<u>4,982,951</u>	<u>4,974,234</u>		
Allowances				
Contractual				
Medicare	1,091,867	990,000		
Medicaid	45,416	50,000		
Other	—	20,676		
Uncollectibles	<u>813,767</u>	<u>846,691</u>		
Total allowances	<u>1,951,050</u>	<u>1,907,367</u>		
Totals	<u>\$3,031,901</u>	<u>\$3,066,867</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 52,178</u>	<u>\$ 48,717</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>58</u>	<u>64</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

	<b>Amounts</b>		<b>Percent of net patient service revenue</b>	
	<b>Year ended June 30</b>		<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>BALANCE</b> , beginning	\$ 846,691	\$ 717,704		
<b>ADD</b>				
Provision for bad debts	651,000	628,000	3.41%	3.53%
Recoveries of accounts previously written off	207,806	259,936	1.09	1.46
<b>DEDUCT</b>				
Accounts written off	<u>(891,730)</u>	<u>(758,949)</u>	4.67	4.27
<b>BALANCE</b> , ending	<u>\$ 813,767</u>	<u>\$ 846,691</u>		

**Winneshiek County Memorial Hospital  
COMPARATIVE INVENTORIES**

	<b>June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Surgery/central supply	\$ 452,217	\$ 381,160
Pharmacy	167,921	168,713
Laboratory	—	53,612
Storeroom	—	8,375
Dietary	6,420	6,635
Other areas	<u>—</u>	<u>9,864</u>
Totals	<u>\$ 626,558</u>	<u>\$ 628,359</u>

**Winneshiek County Memorial Hospital**  
**INSURANCE COVERAGE**  
**June 30, 2004**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Farm Bureau	Worker's Compensation	April 2004 to April 2005	\$500,000/500,000/500,000
Pic of Wisconsin	Commercial General Liability	April 2004 to April 2005	\$1,000,000
	Umbrella Excess Liability		5,000,000
	Medical Professional Liability		
	- Each Person		1,000,000
	Medical Professional Liability		
	- Total Facility		3,000,000
Chubb	Blanket limit of insurance	April 2004 to April 2005	\$23,533,000
	Blanket Earnings and Expense Coverage		10,228,905
	Accounts Receivable Coverage		2,500,000
	Personal Property – All other locations		80,000
	Personal Property – In transit		80,000
	Auto Liability	April 2004 to April 2005	\$1,000,000
Fireman's Fund	Directors and Officers Liability	November 2003 to November 2004	\$3,000,000
Cincinnati Insurance Company	Blanket Employee Dishonesty	September 2003 to September 2004	\$100,000

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Winneshiek County Memorial Hospital  
PATIENT SERVICE REVENUE**

	<b>Totals</b>	
	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>DAILY PATIENT SERVICES</b>		
Routine care	\$ 1,594,470	\$ 1,361,050
Coronary care	341,127	304,920
Obstetrics	379,050	332,150
Nursery	267,120	233,480
Swing bed	327,900	325,380
Transitional care	8,215	9,950
	<u>2,917,882</u>	<u>2,566,930</u>
<b>OTHER NURSING SERVICES</b>		
Operating and recovery rooms	3,623,656	3,144,109
Delivery and labor rooms	366,777	360,843
Central supply	3,412,912	2,299,354
Intravenous therapy	398,561	349,453
Emergency room	1,493,042	1,312,610
Emergency room physician fees	914,650	837,545
Same day services	740,198	637,906
Home health agency	216,604	290,808
Hospice	278,828	201,214
Observation room	179,174	104,070
	<u>11,624,402</u>	<u>9,537,912</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Laboratory	3,367,357	3,338,620
Pharmacy	3,540,486	3,192,228
Radiology	1,568,565	1,523,994
Physical therapy	1,217,451	1,050,580
Occupational therapy	269,584	288,084
Anesthesiology	87,760	80,132
Respiratory therapy	515,061	545,074
Electrocardiology and echocardiology	313,669	306,028
CT scans	1,534,565	1,481,813
Magnetic resonance imaging	856,340	952,485
Ultrasound	613,451	714,548
Blood administration	215,867	171,668
Nuclear medicine	206,928	201,932
Speech therapy	45,956	38,589
Ambulance service	802,112	686,818
Dietary consulting	8,995	10,600
	<u>15,164,147</u>	<u>14,583,193</u>
Totals	29,706,431	26,688,035
Charity care charges foregone, based on established rates	<u>(142,107)</u>	<u>(116,916)</u>
Total gross patient service revenue	29,564,324	26,571,119
Provisions for contractual and other adjustments	<u>(10,467,004)</u>	<u>(9,417,552)</u>
Total net patient service revenue	<u>\$19,097,320</u>	<u>\$17,153,567</u>

Inpatient		Outpatient	
Year ended June 30		Year ended June 30	
2004	2003	2004	2003
\$1,594,470	\$1,361,050		
341,127	304,920		
379,050	332,150		
267,120	233,480		
327,900	325,380		
8,215	9,950		
<u>2,917,882</u>	<u>2,566,930</u>		
887,890	714,675	\$ 2,735,766	\$ 2,429,434
302,103	302,247	64,674	58,596
1,881,067	1,227,108	1,531,845	1,072,246
212,625	191,039	185,936	158,414
316,595	231,493	1,176,447	1,081,117
99,079	83,294	815,571	754,251
9,457	14,750	730,741	623,156
—	—	216,604	290,808
272,344	198,684	6,484	2,530
39,324	21,492	139,850	82,578
<u>4,020,484</u>	<u>2,984,782</u>	<u>7,603,918</u>	<u>6,553,130</u>
1,000,680	874,990	2,366,677	2,463,630
993,426	887,119	2,547,060	2,305,109
146,803	125,517	1,421,762	1,398,477
288,334	262,128	929,117	788,452
126,460	114,548	143,124	173,536
23,480	24,559	64,280	55,573
261,729	306,123	253,332	238,951
129,182	112,274	184,487	193,754
255,308	229,596	1,279,257	1,252,217
24,906	28,252	831,434	924,233
49,611	46,369	563,840	668,179
109,890	98,568	105,977	73,100
16,088	9,957	190,840	191,975
14,204	22,196	31,752	16,393
20,719	18,959	781,393	667,859
—	—	8,995	10,600
<u>3,460,820</u>	<u>3,161,155</u>	<u>11,703,327</u>	<u>11,422,038</u>
<u>\$10,399,186</u>	<u>\$8,712,867</u>	<u>\$19,307,245</u>	<u>\$17,975,168</u>

**Winneshiek County Memorial Hospital**  
**PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Contractual adjustments		
Medicare	\$ 8,258,022	\$7,244,906
Medicaid	577,343	521,918
Other adjustments	980,639	1,022,728
Provision for bad debts	<u>651,000</u>	<u>628,000</u>
Totals	<u>\$10,467,004</u>	<u>\$9,417,552</u>

**OTHER REVENUE**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Contract fees and services		
Pharmacy	\$ 208,837	\$ 217,723
Physical therapy, occupational therapy and speech therapy	173,729	159,907
Dietary	21,146	17,392
Laundry and housekeeping	9,081	10,903
Nurses' call system	47,686	29,100
Employee meals	67,752	57,451
Meals on Wheels and guest meals	29,590	38,151
Educational and other programs	—	39,705
Vending machines	3,690	4,428
Medical records transcripts	2,520	450
Miscellaneous	<u>30,835</u>	<u>51,759</u>
Totals	<u>\$ 594,866</u>	<u>\$ 626,969</u>

**Winneshiek County Memorial Hospital  
NURSING SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>NURSING ADMINISTRATION</b>		
Salaries	\$ 137,561	\$ 123,933
Supplies and expense	<u>6,683</u>	<u>5,221</u>
	<u>144,244</u>	<u>129,154</u>
<b>MEDICAL AND SURGICAL</b>		
Salaries	800,941	692,234
Supplies and expense	<u>78,757</u>	<u>61,253</u>
	<u>879,698</u>	<u>753,487</u>
<b>CORONARY CARE</b>		
Salaries	187,743	168,110
Professional fees	—	18,750
Supplies and expense	<u>33,500</u>	<u>34,311</u>
	<u>221,243</u>	<u>221,171</u>
<b>OBSTETRIC</b>		
Salaries	316,055	286,832
Supplies and expense	<u>36,375</u>	<u>24,788</u>
	<u>352,430</u>	<u>311,620</u>
<b>NURSERY</b>		
Salaries	121,384	115,379
Supplies and expense	<u>13,229</u>	<u>13,552</u>
	<u>134,613</u>	<u>128,931</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	571,230	483,787
Supplies and expense	<u>412,476</u>	<u>601,107</u>
	<u>983,706</u>	<u>1,084,894</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries	63,519	55,850
Supplies and expense	<u>5,552</u>	<u>8,571</u>
	<u>69,071</u>	<u>64,421</u>
<b>CENTRAL SUPPLY</b>		
Salaries	31,420	23,710
Billable supplies	972,342	263,856
Supplies and expense	<u>58,046</u>	<u>66,458</u>
	<u>1,061,808</u>	<u>354,024</u>
<b>INTRAVENOUS THERAPY</b>		
Supplies and expense	<u>2,034</u>	<u>4,620</u>
<b>EMERGENCY ROOM</b>		
Salaries	655,703	583,255
Professional fees	760,738	740,122
Supplies and expense	<u>59,150</u>	<u>53,503</u>
	<u>1,475,591</u>	<u>1,376,880</u>
<b>SAME DAY SERVICES</b>		
Salaries	173,225	140,059
Supplies and expense	<u>19,507</u>	<u>8,250</u>
	<u>192,732</u>	<u>148,309</u>
<b>HOME HEALTH AGENCY</b>		
Salaries	168,918	188,301
Supplies and expense	<u>13,156</u>	<u>19,196</u>
	<u>182,074</u>	<u>207,497</u>

**Winneshiek County Memorial Hospital  
NURSING SERVICE EXPENSES (continued)**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>HOSPICE</b>		
Salaries	\$ 75,002	\$ 60,035
Supplies and expense	<u>44,091</u>	<u>26,613</u>
	<u>119,093</u>	<u>86,648</u>
<b>EDUCATION AND OUTREACH PROGRAMS</b>		
Salaries	80,382	22,617
Supplies and expense	<u>8,799</u>	<u>6,708</u>
	<u>89,181</u>	<u>29,325</u>
<b>SPECIAL SERVICES</b>		
Salaries	<u>3,652</u>	<u>2,771</u>
<b>RECREATIONAL THERAPY</b>		
Salaries	4,583	1,988
Supplies and expense	<u>1,366</u>	<u>541</u>
	<u>5,949</u>	<u>2,529</u>
Totals	<u>\$5,917,119</u>	<u>\$4,906,281</u>

**Winneshiek County Memorial Hospital  
OTHER PROFESSIONAL SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>LABORATORY</b>		
Salaries	\$ 533,595	\$ 454,318
Professional fees	126,000	126,000
Purchased services	48,984	45,621
Supplies and expense	<u>444,197</u>	<u>388,331</u>
	<u>1,152,776</u>	<u>1,014,270</u>
<b>PHARMACY</b>		
Salaries	190,609	188,829
Drugs	1,111,349	1,082,795
Supplies and expense	<u>22,661</u>	<u>41,572</u>
	<u>1,324,619</u>	<u>1,313,196</u>
<b>RADIOLOGY</b>		
Salaries	363,140	326,112
Professional fees	81,775	77,100
Supplies and expense	<u>144,729</u>	<u>154,402</u>
	<u>589,644</u>	<u>557,614</u>
<b>PHYSICAL THERAPY</b>		
Salaries	652,723	524,046
Supplies and expense	<u>188,498</u>	<u>148,938</u>
	<u>841,221</u>	<u>672,984</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries	134,562	130,692
Supplies and expense	<u>9,462</u>	<u>7,740</u>
	<u>144,024</u>	<u>138,432</u>
<b>ANESTHESIOLOGY</b>		
Professional fees	9,996	9,996
Supplies and expense	<u>10,989</u>	<u>17,219</u>
	<u>20,985</u>	<u>27,215</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	132,274	143,462
Purchased services	42,533	34,029
Supplies and expense	<u>33,695</u>	<u>34,804</u>
	<u>208,502</u>	<u>212,295</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries	26,954	31,300
Supplies and expense	<u>4,398</u>	<u>5,973</u>
	<u>31,352</u>	<u>37,273</u>
<b>ECHOCARDIOLOGY</b>		
Purchased services	<u>10,727</u>	<u>8,875</u>
<b>CT SCANS</b>		
Salaries	19,189	17,996
Supplies and expense	<u>60,351</u>	<u>67,081</u>
	<u>79,540</u>	<u>85,077</u>

**Winneshiek County Memorial Hospital**  
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>MAGNETIC RESONANCE IMAGING</b>		
Purchased services	\$ 226,744	\$ 245,922
Supplies and expense	<u>3,290</u>	<u>9,421</u>
	<u>230,034</u>	<u>255,343</u>
<b>ULTRASOUND</b>		
Salaries	81,171	112,699
Purchased services	2,247	1,100
Supplies and expense	<u>37,089</u>	<u>23,695</u>
	<u>120,507</u>	<u>137,494</u>
<b>BLOOD ADMINISTRATION</b>		
Supplies and expense	<u>124,188</u>	<u>116,308</u>
<b>NUCLEAR MEDICINE</b>		
Purchased services	<u>63,397</u>	<u>56,225</u>
<b>SPEECH THERAPY</b>		
Salaries	51,650	35,060
Purchased services	2,057	3,424
Supplies and expense	<u>5,202</u>	<u>452</u>
	<u>58,909</u>	<u>38,936</u>
<b>AMBULANCE</b>		
Salaries	327,082	306,087
Supplies and expense	<u>51,279</u>	<u>36,583</u>
	<u>378,361</u>	<u>342,670</u>
<b>SOCIAL SERVICES/UTILIZATION REVIEW</b>		
Salaries	66,742	64,426
Supplies and expense	<u>2,155</u>	<u>2,066</u>
	<u>68,897</u>	<u>66,492</u>
<b>MEDICAL RECORDS</b>		
Salaries	299,411	293,922
Supplies and expense	<u>32,949</u>	<u>42,031</u>
	<u>332,360</u>	<u>335,953</u>
Totals	<u>\$5,780,043</u>	<u>\$5,416,652</u>

**Winneshiek County Memorial Hospital  
GENERAL SERVICE EXPENSES**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>DIETARY</b>		
Salaries	\$ 338,509	\$ 318,429
Supplies and expense	<u>219,795</u>	<u>199,189</u>
	<u>558,304</u>	<u>517,618</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	128,003	138,579
Utilities	149,857	153,518
Fuel	114,977	118,741
Supplies and expense	<u>107,170</u>	<u>96,181</u>
	<u>500,007</u>	<u>507,019</u>
<b>HOUSEKEEPING</b>		
Salaries	190,608	187,885
Supplies and expense	<u>24,679</u>	<u>19,347</u>
	<u>215,287</u>	<u>207,232</u>
<b>LAUNDRY AND LINEN</b>		
Salaries	91,725	83,959
Supplies and expense	<u>27,582</u>	<u>19,017</u>
	<u>119,307</u>	<u>102,976</u>
 Totals	 <u>\$1,392,905</u>	 <u>\$1,334,845</u>

**Winneshiek County Memorial Hospital  
FISCAL AND ADMINISTRATIVE SERVICE  
AND UNASSIGNED EXPENSES**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
<b>Administration</b>		
Salaries	\$ 308,150	\$ 251,007
Dues, subscriptions and travel expense	36,348	51,093
Recruitment	8,792	6,302
Supplies and expense	345,024	291,665
<b>Business office</b>		
Salaries	352,499	332,234
Professional services	47,004	50,663
Collection expense	52,914	57,630
Telephone	33,022	32,872
Supplies and expense	164,241	85,415
<b>Accounting services</b>		
Salaries	165,106	115,594
Supplies and expense	7,555	9,668
<b>Information technology</b>		
Salaries	110,112	77,832
Supplies and expense	84,647	71,522
<b>Development department</b>		
Salaries	135,236	113,924
Supplies and expense	134,805	107,784
<b>Human resources</b>		
Salaries	110,745	92,441
Supplies and expense	18,369	11,257
<b>Quality assurance</b>		
Salaries	119,033	112,412
Supplies and expense	15,112	9,568
<b>Medical staff</b>		
Supplies and expense	7,860	4,082
<b>Materials management</b>		
Salaries	97,094	87,379
Supplies and expense	18,119	21,338
Total fiscal and administrative service expenses	<u>2,371,787</u>	<u>1,993,682</u>
<b>UNASSIGNED EXPENSES</b>		
Insurance	201,900	179,335
Employee benefits		
FICA	609,228	537,836
IPERS	469,957	415,507
Group health insurance	707,649	475,105
Other	117,993	154,791
Total unassigned expenses	<u>2,106,727</u>	<u>1,762,574</u>
Totals	<u>\$4,478,514</u>	<u>\$3,756,256</u>

**Winneshiek County Memorial Hospital  
COMPARATIVE REVENUE AND EXPENSES**

	Year ended June 30			
	2004	2003	2002	2001
<b>NET PATIENT SERVICE REVENUE</b>	\$19,097,320	\$17,153,567	\$15,513,730	\$13,801,085
<b>OTHER REVENUE</b>	<u>594,866</u>	<u>626,969</u>	<u>568,824</u>	<u>525,204</u>
Total revenue	<u>19,692,186</u>	<u>17,780,536</u>	<u>16,082,554</u>	<u>14,326,289</u>
<b>EXPENSES</b>				
Salaries	8,417,240	7,489,485	6,733,490	6,826,520
Supplies, professional fees and other expenses	9,151,341	7,924,549	7,691,988	6,776,793
Provision for depreciation and amortization	<u>1,109,765</u>	<u>817,414</u>	<u>743,279</u>	<u>726,525</u>
Total expenses	<u>18,678,346</u>	<u>16,231,448</u>	<u>15,168,757</u>	<u>14,329,838</u>
Operating income (loss)	<u>1,013,840</u>	<u>1,549,088</u>	<u>913,797</u>	<u>(3,549)</u>
<b>NONOPERATING GAINS</b>				
County taxes	433,127	432,809	428,821	429,007
Interest expense	(80,424)	(94,654)	(74,675)	(86,893)
Contribution expense	—	(22,572)	(24,140)	(7,831)
Interest income	101,879	146,051	156,011	248,027
Unrestricted contributions	21,072	25,905	11,976	9,622
Rental property, net	66,916	84,681	103,667	73,448
Gain (loss) on sale of property and equipment	<u>2,191</u>	<u>(18,604)</u>	<u>4,387</u>	<u>2,000</u>
Total nonoperating gains	<u>544,761</u>	<u>553,616</u>	<u>606,047</u>	<u>667,380</u>
Excess of revenues and gains over expenses before contributions	1,558,601	2,102,704	1,519,844	663,831
<b>CONTRIBUTIONS</b>	<u>899,512</u>	<u>114,165</u>	<u>151,905</u>	<u>177,327</u>
Change in fund equity	<u>\$ 2,458,113</u>	<u>\$ 2,216,869</u>	<u>\$ 1,671,749</u>	<u>\$ 841,158</u>

**Winneshiek County Memorial Hospital  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>PATIENT DAYS</b>		
Adult and pediatric	3,652	3,302
Swing bed	1,093	1,122
Newborn	<u>634</u>	<u>590</u>
Totals	<u>5,379</u>	<u>5,014</u>
<b>ADMISSIONS</b>		
Adult and pediatric	1,221	1,074
Swing bed	<u>181</u>	<u>157</u>
Totals	<u>1,402</u>	<u>1,231</u>
<b>DISCHARGES</b>		
Adult and pediatric	1,224	1,069
Swing bed	<u>179</u>	<u>160</u>
Totals	<u>1,403</u>	<u>1,229</u>
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	2.9	3.1
Swing bed	6.1	7.0
<b>BEDS</b>		
Acute	57	57
<b>OCCUPANCY PERCENT</b>		
Adult and pediatric	17.51%	15.87%
Swing bed	<u>5.24</u>	<u>5.39</u>
Combined	<u>22.75%</u>	<u>21.26%</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Winneshiek County Memorial Hospital  
Decorah, Iowa

We have audited the financial statements of Winneshiek County Memorial Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Winneshiek County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Winneshiek County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the County of Winneshiek and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 26, 2004

**Winneshiek County Memorial Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part I—Findings Related to the Financial Statements**

No matters regarding reportable conditions, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Winneshiek County Memorial Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part II—Findings Related to Required Statutory Reporting**

**04-II-A OFFICIAL DEPOSITORIES**

A resolution naming official depositories has been adopted by the Board of Trustees. As of June 30, 2004, the Hospital held investments in a bank that is not listed on the current depository resolution.

**Recommendation**

We recommend the list of official depositories be updated to include all institutions in which the Hospital maintains cash and investments.

**Response**

The resolution will be modified as recommended.

**Conclusion**

Response accepted.

**04-II-B CERTIFIED BUDGET**

**Comment**

Based on a comparison of actual operating expenses with budget basis expenditures, it appears the Hospital exceeded its budget for the year ended June 30, 2004.

**Recommendation**

Should this occur in the future, we recommend the budget be amended.

**Response**

In the future, we will amend the budget, as necessary.

**Conclusion**

Response accepted.

**04-II-C QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**04-II-D TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**Winneshiek County Memorial Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part II—Findings Related to Required Statutory Reporting**

**04-II-E BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and Hospital officials and/or employees.

**04-II-F BOARD MINUTES**

No transactions were found that we believe should have been approved in the Board minutes but were not.

**04-II-G DEPOSITS AND INVESTMENTS**

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.



Certified Public Accountants & Business Consultants

**INDEPENDENT AUDITOR'S REPORT ON  
DEBT AGREEMENT COVENANTS**

Board of Trustees  
Winneshiek County Memorial Hospital  
Decorah, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Winneshiek County Memorial Hospital as of June 30, 2004, and have issued our report thereon dated August 26, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital was not in compliance with any of the terms, covenants, provisions, or conditions of Section Seventeen "Covenants Regarding the Operation of the Hospital", and Section Fifteen "Patient Rates and Charges" of the loan agreement dated December 1, 2001 relating to the issue of \$3,500,000 Hospital Revenue Note, Series 2001, with the County of Winneshiek, Iowa, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

We have tested the Hospital's compliance with Section Fifteen "Patient Rates and Charges" for the year ended June 30, 2004 and found the Hospital to be in compliance.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the County of Winneshiek and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 26, 2004